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ABSTRACT

Recent events have increased concerns about the potential for fraud in student loan programs related to loans for U.S. residents attending foreign schools. In 2002 the Office of Special Investigations of the General Accounting Office (GAO) created a fictitious foreign school that the Department of Education subsequently certified as eligible to participation in the student loan program. GAO investigators subsequently obtained approval for student loans totaling $55,000 on behalf of three fictitious students. This investigation and other data reveal that the Federal Family Education Loan Program (FFELP) is vulnerable to fraud, waste, and abuse in several ways. The GAO recommends that the Department of Education develop on-line training resources specifically designed for foreign school officials and that it undertake a risk assessment to determine how best to ensure accountability while considering costs, burden to schools and students, and access to foreign schools. Two appendixes describe characteristics of foreign schools participating in the FFELP and contain comments from the Department of Education. (SLD)

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United States General Accounting Office

GAO

Report to Congressional Addressees

ED 480 015

July 2003

STUDENT LOANS AND FOREIGN SCHOOLS

Assessing Risks Could Help Education Reduce Program Vulnerability

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July 2003

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Highlights

Highlights of GAO-03-647, a report to Congressional Addressees

STUDENT LOANS AND FOREIGN SCHOOLS

Assessing Risks Could Help Education Reduce Program Vulnerability

Why GAO Did This Study

Recent events have increased concerns about the potential for fraud in Education's student loan programs related to loans for U.S. residents attending foreign schools. In 2002, GAO's Office of Special Investigations created a fictitious foreign school that Education subsequently certified as eligible to participate in the student loan program. GAO investigators subsequently successfully obtained approval for student loans totaling $55,000 on behalf of three fictitious students. Over the past decade, Education's Inspector General has investigated many instances of suspected student loan fraud involving individuals applying for loans for purported attendance at foreign schools. The conference report accompanying the 2001 Labor, Health and Human Services, and Education Appropriations Act mandated that GAO examine and report on fraud, waste, and abuse with respect to student loans for Americans attending foreign schools.

What GAO Recommends

GAO recommends that Education

- develop on-line training resources specifically designed for foreign school officials and
- undertake a risk assessment to determine how best to ensure accountability while considering costs, burden to schools and students, and access to foreign schools.

Education agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-647.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Cornelia M. Ashby at (202) 512-8403 or ashbyc@gao.gov.

What GAO Found

Foreign schools offer unique educational opportunities for Americans and help ensure that U.S. students have a wide range of options in pursuing postsecondary education. Almost 70 percent of all U.S. residents receiving Federal Family Education Loan Program (FFELP) funds to attend foreign schools are in medical school and they account for three-quarters of the total loan volume. While some foreign schools participating in the FFELP enroll large numbers of U.S. residents, others enroll only a few, as seen in the table below, which also indicates the countries wherein FFELP loan volume is highest.

Countries with Highest FFELP Loan Volume for Americans Attending Foreign Schools, Academic Year 2000-01

Country	Number of schools	Average number of students per school	Loan volume
Dominica	1	1776	$35,235,509
Grenada	1	1528	$30,666,842
Mexico	11	138	$27,003,357
England	182	9	$25,405,722
Dominican Republic	6	177	$20,653,159

Source: GAO analysis of FSA data.

We found that FFELP is vulnerable to fraud, waste, and abuse in several ways. For instance, many foreign schools do not submit required audited financial statements and program compliance audit reports, which would allow Education to monitor for and detect significant fraud or other illegal acts. For fiscal year 2001, about 57 percent of foreign schools failed to submit audited financial statements, while the vast majority of foreign schools failed to submit program compliance audit reports. Education has taken limited steps to address instances of vulnerabilities to fraud, waste, and abuse. For example, Education has issued a reference guide and conducted training for foreign school officials. However, a number of foreign school officials reported that they had not received training prior to administering FFELP funds. In addition, we found that some foreign school officials are not properly determining and documenting student eligibility for loans; as a result FFELP funds may be provided to students who should not be receiving them. We also found that the on-line training to which Education refers foreign school officials presents information in some cases that is contrary to how foreign schools are to administer FFELP. Education could take additional action to reduce the potential for fraud, waste, and abuse, but will have to address the trade-offs that arise from its actions that may affect student access and burden for various program participants. A comprehensive risk assessment is one method that Education could employ to determine how to balance an appropriate level of oversight with the desire to provide American students access to foreign educational opportunities.

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Abbreviations

CPS	Central Processing System
COACH	Computer-Based Orientation and How-tos
FAFSA	Free Application for Federal Student Aid
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
GAAP	Generally Accepted Accounting Principles
HEA	Higher Education Act of 1965
ISIR	Institutional Student Information Report
MPN	Master Promissory Note
NSLDS	National Student Loan Database System
OIG	Office of Inspector General
PEPS	Postsecondary Education Participants System
PPA	Program Participation Agreement
SAIG	Student Aid Internet Gateway
SAR	Student Aid Report
SSCR	Student Status Confirmation Report

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United States General Accounting Office
Washington, DC 20548

July 25, 2003

Congressional Addressees

Recent events have increased concerns about the potential for fraud in the Department of Education's student loan programs, especially as it relates to U.S. citizens and permanent residents (hereafter referred to as U.S. residents) attending foreign schools.[1] The Federal Family Education Loan Program (FFELP), which provided about $23 billion in loans to students in fiscal year 2000, is the only federal student financial aid program in which foreign schools participate; about $226 million in FFELP loans were disbursed to U.S. residents attending 407 foreign schools in the 2000-01 academic year. Many of these foreign schools enroll only a small number of U.S. residents who receive FFELP funds, but a few schools enroll large numbers.

The conference report accompanying the 2001 Labor, Health and Human Services, and Education Appropriations Act directed that we examine and report on the problem of fraud, waste, and abuse related to loans for U.S. residents attending foreign schools. Accordingly, our specific objectives were to determine (1) ways in which FFELP is vulnerable to fraud, waste, and abuse with respect to loans for U.S. residents attending foreign schools; (2) what Education has done to reduce FFELP's vulnerability; and (3) additional actions that might reduce program vulnerability to fraud, waste, and abuse.

To address our objectives, we discussed the vulnerability of FFELP and actions that Education has taken or could take to address such

[1]A foreign school is a school that is located outside of the United States of America, its territories, the Commonwealth of Puerto Rico, the Freely Associated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. Students attending foreign schools are eligible for loans only under the Federal Family Education Loan Program. The program consists of subsidized and unsubsidized Stafford Loans, Federal PLUS loans, and Federal Consolidation loans. Subsidized Stafford Loans are provided to students who have demonstrated financial need and the federal government pays the interest costs on the loan while the student is in school. Unsubsidized Stafford Loans are provided to students regardless of financial need, but the federal government does not pay the interest costs on the loans while the student is in school. Students are therefore responsible for all interest costs. PLUS loans are loans made to parents of dependent undergraduate students; borrowers are responsible for paying all interest on the loan. Consolidation loans allow borrowers to combine one or more of their U.S. education loans into one new loan.

vulnerability with officials from Education's Office of Federal Student Aid (FSA) and Office of Inspector General (OIG), school administrators and representatives of lenders and guaranty agencies that help to administer FFELP and guarantee payment to lenders if students fail to repay loans. We also reviewed relevant documents published by Education, such as *The Student Guide*, *The Student Financial Aid Handbook for Foreign Schools 2001-2002*, and FSA's on-line training tutorial. We also reviewed the Higher Education Act (HEA) and related Education regulations. To further address the first objective, we reviewed GAO and OIG reports on fraud investigations.[2] In addition, to assess selected foreign schools' ability to manage FFELP and their roles in reducing program vulnerability, we conducted site visits to the administrative offices of four schools, conducted telephone interviews with the administrators of an additional eight schools, and reviewed student files at eight schools.[3] We selected these schools to reflect a variety of foreign schools in terms of degree programs offered, school type (private for-profit, private nonprofit, and public), U.S. resident student enrollment, and whether they had electronic access to Education's information systems. In reviewing student files at those schools with fewer than 25 students receiving FFELP funds, we reviewed the files of all such students to determine whether school officials had ensured students' eligibility for loans. In reviewing student files at those schools with more than 25 students receiving FFELP funds, we reviewed the files for those students for whom Education informed schools, following its initial review of eligibility for student aid, that additional information was needed to determine that students qualified for loans. We also obtained information from Education's Postsecondary Education Participants System (PEPS) to determine whether schools were meeting the requirements for participation in FFELP. To further address the second and third objectives, we interviewed others involved in the FFELP process, such as school administrators and lending and guaranty agency officials, and reviewed relevant documents provided by those officials.

We conducted our work between July 2002 and May 2003 in accordance with generally accepted government auditing standards.

[2]See U.S. General Accounting Office, *Department of Education: Guaranteed Loan Program Vulnerabilities*, GAO-03-268R (Washington, D.C.: Nov. 21, 2002).

[3]In addition to reviewing the files at the four schools we visited, we also reviewed the files of four additional foreign schools; administrators mailed the relevant materials to us.

Results in Brief

FFELP is vulnerable to fraud, waste, and abuse with respect to loans for U.S. residents attending foreign schools in several ways. Some school officials are improperly determining and documenting student eligibility for loans and are unaware of the proper procedures for doing so. Also, because of budget constraints, Education has not conducted on-site program reviews at a foreign school since November 2000, even though its earlier on-site reviews of foreign schools revealed that some schools were inappropriately approving loans. In addition, certain features of the program increase the potential for fraud, waste, and abuse. Unlike students attending domestic schools, U.S. residents attending foreign schools may choose to receive loan proceeds directly from the lender rather than through their schools and may receive one lump sum for the entire academic year rather than multiple disbursements for each semester or other academic year division, thereby exacerbating the U.S. government's exposure to potential loss due to fraud, waste, and abuse. Further, many foreign schools do not submit to Education required audited financial statements and program compliance audit reports, which can provide important information that could allow Education to, among other things, identify vulnerability to fraud, waste, and abuse and detect actual instances of such activities. For fiscal year 2001, about 57 percent of foreign schools failed to submit audited financial statements, while the vast majority of foreign schools failed to submit program compliance audit reports. Finally, an investigation completed by our Office of Special Investigations revealed vulnerability in Education's process for determining the eligibility of foreign schools to participate in FFELP. Education approved a fictitious foreign school that our undercover investigators created—a step that allowed our investigators to obtain approval for FFELP loans for fictitious students.

Education has taken limited steps—since the beginning of 2002 and throughout the course of our audit work—to reduce FFELP vulnerability to fraud, waste, and abuse but FFELP remains vulnerable. For example, in January 2002, Education issued a reference guide for foreign schools designed to explain their legal requirements as participants in FFELP and conducted training sessions for foreign schools officials to supplement the reference guide in several countries. However, interviews with officials at foreign schools suggest that some officials remain unfamiliar with program procedures, such as how to properly determine and document students' eligibility for FFELP loans. As a result, FFELP funds may be provided to students who should not be receiving them. A number of school officials also reported that they had not received training prior to administering FFELP funds. Education's on-line training tutorial for FFELP administrators, to which Education refers foreign school officials

for training, does not include information specific to foreign schools and even presents information that is contrary to how foreign schools are to administer FFELP. In addition, although in December 2002 Education requested that all foreign schools submit overdue audited financial statements and that schools that have certified $500,000 or more in FFELP loans submit program compliance audit reports, it has not decided on the consequences for schools that do not comply with the request. Further, in response to our prior investigation during which Education granted approval to a fictitious foreign school that our undercover investigators created, Education has retrained its staff to verify school existence with in-country officials, required documentation of the verification, and performed verification of the existence of all currently participating schools. However, Education's process does not include conducting on-site visits to verify the existence of foreign schools nor has it reached a final decision on how it will verify the existence of new foreign schools. As a result, no new foreign schools have been approved for participation in FFELP since the summer of 2002, even though applications have been received from 19 schools.

Education could take additional action to reduce the vulnerability of FFELP to fraud, waste, and abuse with respect to loans for U.S. residents attending foreign schools, such as more strictly enforcing audit requirements or providing electronic access to information systems to help school officials more easily determine students' eligibility for FFELP loans. However, any steps that Education takes will likely involve trade-offs that may affect access, accountability, and burden for various participants in FFELP. For example, Education could aggressively enforce foreign schools' audit reporting requirements for annual audited financial statements and program compliance audit reports, but doing so may lead to unintended consequences, such as foreign schools withdrawing from FFELP, potentially limiting students' access to such institutions. Several foreign school officials told us that the audit reporting requirements provide a disincentive to participate in FFELP because of the administrative and financial burdens associated with the requirements, especially when few U.S. residents attend their schools. Changing loan disbursement procedures may also minimize the potential for fraud, waste, and abuse of FFELP funds, but these changes might entail some burden on the part of schools and students. Some schools, in fact, are unaccustomed to handling student financial aid because such systems do not exist in their own countries for their own students. While providing foreign schools electronic access to Education's databases would assist foreign school administrators in fulfilling their responsibilities, doing so may increase information security risk. To help agencies balance how best to

achieve important program goals while safeguarding assets from fraud, waste, and abuse, we have issued standards for internal controls that provide a framework for identifying areas at greatest risk. In addition, we have issued various reports that are useful tools to assist agencies in evaluating internal controls and addressing improper payments resulting from fraud, waste, and abuse. Among other things, these reports highlight the importance of conducting risk assessments—comprehensive reviews and analyses of program operations to determine the nature and extent of program risks—and identifying cost-effective control activities to address identified risks.

In this report, we make recommendations to the Secretary of Education to develop on-line training resources specifically designed for foreign school officials and conduct a risk assessment to determine how best to ensure program integrity while helping to provide U.S. residents with access to foreign schools.

We provided Education with a copy of our draft report for review and comment. In written comments on our draft report, Education agreed with our reported findings and recommendations. Education's written comments appear in appendix II. Education also provided technical clarification, which we incorporated where appropriate.

Background

Foreign schools can offer unique educational opportunities for U.S. residents, such as improved language proficiency and knowledge of other cultures, and help ensure that U.S. residents have a wide range of options in pursuing postsecondary education. The number of loans certified for U.S. residents attending foreign schools has risen from just under 4,600 in the 1993-94 academic year to over 13,000 in the 2000-01 academic year. Over 500 schools in 44 foreign countries are currently eligible to participate. About 9,000 of these students attend foreign medical schools and account for about three-quarters of the total loan volume.[4] By country, the highest volume of FFELP loans—over $35 million—are for students attending school in Dominica; its sole eligible institution is a private, for-profit medical school. England, ranked fourth in loan volume, and Canada, seventh, have the largest number of institutions eligible to participate in the FFELP—182 and 108, respectively. Those countries participating in the

[4]From fiscal years 1999-2002, 51 percent of loans to students attending foreign schools were subsidized Stafford Loans, 47 percent were unsubsidized Stafford Loans, and less than 2 percent were PLUS loans.

FFELP and the top 10 foreign schools in loan volume for the 2000-01 academic year are indicated in figure 1. While a few foreign schools enroll large numbers of U.S. residents who receive FFELP funds, the majority of foreign schools enroll only a small number. For example, Queen's College at the University of Oxford had just 3 students receiving FFELP funds in 2001. For more information on the ranges for numbers of U.S. residents receiving FFELP funds for attendance at schools in different countries, see appendix I.

Figure 1: Countries with Schools Eligible to Participate in FFELP and Top 10 Foreign Schools by Loan Volume for Academic Year 2000-01

Source: GAO analysis of FSA data.

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In order to participate in FFELP, foreign schools must submit a variety of documents, such as an application and a copy of the most recent course

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catalog. Once Education initially certifies the school for participation, the school enters into a Program Participation Agreement (PPA) with Education that requires it to comply with the laws, regulations, and policies governing FFELP. PPAs vary, but some may be valid for up to 6 years. To maintain its ability to participate, the foreign school must demonstrate that it is administratively capable of providing the education promised and of properly managing the program, and that it is financially responsible. Schools must submit program compliance audits and audited financial statement reports to Education on an annual basis. Program compliance audit reports are intended to demonstrate schools' ability to administer FFELP in compliance with HEA and related Education regulations, while audited financial statements serve as evidence of schools' financial responsibility. Schools must submit recertification materials to Education for continued participation in FFELP before the expiration of their current PPA.

Education evaluates the application and accompanying documentation to determine whether a school is eligible to participate. Education's Foreign Schools Team, consisting of eight staff members and one director, is responsible for assisting and overseeing foreign schools. Some of the ways in which the team oversees foreign schools, which are similar to the way Education oversees domestic schools, are presented in table 1. Education also has responsibility for maintaining information systems involved in the loan process, which is discussed more fully below.

Table 1: Education Oversight Components for Foreign Schools

Oversight component	Purpose
Audited financial statements	Provides Education with information to evaluate a school's financial condition.
Program compliance audit reports	Provides information about schools' compliance with HEA and related Education regulations.
On-site program reviews	Assesses schools' ability to administer FFELP.
Initial certification and recertification process	After Education certifies a school as eligible to participate in FFELP, the school and Education enter into a program participation agreement that requires a school to adhere to all applicable laws and program regulations.

Source: Education.

While Education and the foreign schools each have specific responsibilities, other parties are involved in the student loan process, including students, lenders, and guaranty agencies. Students are responsible for filing certain loan application materials, while lenders

make loans, and guaranty agencies repay lenders the loan funds if the borrower defaults.

Regardless of whether a student plans to attend a foreign or domestic school, a student applying for a FFELP loan is required to first submit a Free Application for Federal Student Aid (FAFSA). The student must also sign the Master Promissory Note (MPN), which outlines the students' responsibilities for repaying the loan. The information provided by the student on the FAFSA is checked by Education against various information systems, including Social Security Administration databases and the National Student Loan Database System (NSLDS), to test the accuracy of information and to assess the student's loan history.

The administrators of the school the student plans to attend must certify the student's eligibility for loans and the loan amount based on the output from the FAFSA.[5] This output will indicate whether there are any issues with the student's eligibility based on the information provided by the student and the edit checks against the various databases. For example, the output would indicate if the check against SSA's databases revealed that the social security number provided did not match the name provided by the student, or if the check against Education's NSLDS revealed that the student was in default on previous loans. In addition, the output includes the Expected Family Contribution, which is the amount the student and his family are expected to contribute to educational expenses. The administrators determine the student's financial need based on this information, the cost of attendance, and the amount of financial aid other than FFELP funds that the student is expected to receive.

Once the school has certified the student's eligibility and loan amount and the student has signed the MPN, the lender can disburse the loan. Although lenders disburse loans for students attending domestic schools to the school, a chief difference for students attending foreign schools is that lenders may disburse loans either directly to students or to the foreign school the student is attending. The guaranty agency then sends to the student's school a student status confirmation report (SSCR), which lists all students for whom loans were guaranteed for attendance at the school.

[5]Alternatively, according to Education, it allows guaranty agencies to perform this function on behalf of foreign school administrators; Education notes that, in particular, the guaranty agencies for Massachusetts and Nebraska engage in this practice.

School officials must indicate the enrollment status of these students and return the form to the guaranty agency.

FFELP is Vulnerable to Fraud, Waste, and Abuse in Several Ways with Respect to U.S. Residents Attending Foreign Schools

FFELP is vulnerable to fraud, waste, and abuse in several ways. Some school officials who do not have electronic access to Education's information systems are improperly documenting and determining student eligibility for loans and are unaware of the proper procedures to do so, which could result in ineligible students receiving federal funds. In addition, Education has not conducted any on-site reviews to assess schools' ability to administer FFELP since November 2000. Moreover, exposure to fraud, waste, and abuse is increased because students attending foreign schools, unlike students attending domestic schools, can choose to receive loans directly and in one lump sum for the entire academic year. Further, foreign schools do not submit required audited financial statements and program compliance audit reports, which compromises Education's ability to monitor for and detect significant fraud or other illegal acts. Also, an investigation by our Office of Special Investigations revealed vulnerability in Education's process for determining the eligibility of foreign schools to participate in FFELP.

Some Foreign School Officials Are Not Properly Determining and Documenting Student Eligibility for Loans

Interviews with foreign school officials and our review of school files revealed that some officials are not properly determining and documenting students' eligibility for FFELP loans. As a result, FFELP funds may be provided to students who should not be receiving them. In particular, we found that several schools were using incorrect versions of documents Education generated to alert school officials to information that might indicate a student is ineligible for FFELP loans. We identified this problem among those schools that did not have electronic access to Education's information systems that contain data needed to determine students' eligibility for loans. Of the over 500 foreign schools participating in FFELP, only 32 can electronically access these information systems. However, these 32 schools certified about 70 percent of the total foreign school FFELP loan volume for fiscal year 2001.

Electronic access to Education's information systems can help ensure that schools use the correct information to determine whether students should be receiving FFELP loans. In accessing Education's information systems, schools can obtain Institutional Student Information Reports (ISIR), which Education generates to help schools determine whether students are eligible for loans. ISIRs contain summary information provided on students' FAFSAs as well as the results of various computer matches that

Education conducts. ISIRs indicate, among other things, whether an applicant's social security number reported on the FAFSA is valid, whether a loan applicant has ever defaulted on a student loan, and how much an applicant has previously borrowed. Electronic access to Education's information systems under its existing procedures will not be granted unless a foreign school has among its staff a person who possesses a U.S. social security number. Few foreign schools meet this requirement. In the absence of obtaining ISIRs, foreign school officials must rely on and obtain from students a special eight-page version of the Student Aid Report (SAR), which is also generated by Education and contains information similar to that found in the ISIR. Education typically provides students with only an abbreviated two-page SAR, which summarizes information students submit on the FAFSA, but does not contain all of the information foreign school officials need to determine whether a student is eligible for a loan. Students must specifically request the special eight-page version from Education. Rather than documenting and determining student eligibility based on the eight-page SAR, we found that certain foreign school officials were improperly basing their student eligibility determinations on the two-page SAR.

In reviewing files to determine if schools were properly determining and documenting students' eligibility for FFELP loans, we found that the 2 schools with electronic access to Education's information systems had copies of ISIRs for every student file we reviewed. Each of these schools had certified in excess of $30 million in FFELP loans and together certified about 30 percent of the total FFELP loan volume for fiscal year 2001. However, 5 of the 6 schools without access to Education's information systems, which collectively certified over $3 million in FFELP loans for fiscal year 2001, did not have copies of ISIRs or eight-page SARs on file indicating that schools may have approved loans without obtaining the information necessary for determining student eligibility. Some school officials, in fact, told us that they verified students' eligibility for loans based of the two-page SAR and were unaware that without the eight-page SAR or ISIR, students' eligibility for loans could not be properly verified and documented.

The inability of foreign school officials to electronically access Education's information systems also creates the potential for delays in schools confirming and reporting student enrollment. Schools must confirm the enrollment of students who have borrowed FFELP funds through the use of a SSCR. Without timely and accurate reporting of student enrollment, detecting an individual who receives an FFELP loan but never enrolls in a foreign school is made more difficult. Schools that

have electronic access to Education's information systems can enter these data directly into Education's information systems. Guaranty agencies can then retrieve data through these information systems and monitor whether students whose loans the agency has guaranteed are in fact enrolled in the foreign school. Schools that do not have electronic access to Education's information systems, however, rely on guaranty agencies to send them SSCRs, which they then must return to guaranty agencies via postal mail. Several school officials told us that the inefficiency and lack of dependability of postal mail interfered with their timely submission of SSCRs.

Education Has Not Recently Conducted On-Site Program Reviews, Which Could Help Ensure Program Integrity

Education has not conducted an on-site program review—which is intended to assess, promote, and improve schools' compliance with laws and regulations and help ensure program integrity—at a foreign school since November 2000. Program reviews can supplement the information provided to Education through the required annual audit reports and also help Education to monitor for fraud. Between March 1999 and November 2000, Education conducted six such program reviews at foreign schools (or the U.S. administrative office of the foreign school). As a result of these reviews, Education identified problems with how schools were administering FFELP. For example, the reviews revealed that some foreign school administrators had certified FFELP loans for students in excess of allowable loan limits and certified loans without verifying students' eligibility for FFELP loans. However, a senior FSA official stated that because of budget constraints, on-site visits at foreign schools may not be a feasible use of Education's funds at this time.

Loan Disbursement Processes for Foreign Schools May Exacerbate Potential Loss of FFELP Funds

Exposure to potential loss through instances of fraud, waste, and abuse is exacerbated by the fact that students attending foreign schools, unlike those attending domestic schools, may choose to receive loans directly from the lender rather than through their schools and may receive all loan proceeds in one lump sum for the entire academic year rather than receive the proceeds in multiple disbursements during the academic year. For example, Education's OIG investigated a case in which a single individual submitted about 50 fraudulent loan applications for over $900,000 by falsely claiming enrollment at foreign medical schools. About 26 of the loans, totaling about $400,000 in FFELP funds, were disbursed to the individual before the fraud was detected. Such cases of fraud underscore the importance of foreign schools confirming and reporting student enrollment information to guaranty agencies. Over the past decade, Education's OIG has investigated 90 cases of suspected FFELP fraud, many of which involved individuals requesting to receive loan proceeds directly and posing as foreign school students. During this same time

period, according to an Inspector General official, the OIG recouped about $2.75 million in restitution from the successful prosecution of cases and prevented an additional $1.2 million from being disbursed.

Many Foreign Schools Fail to Submit Required Annual Audit Reports That Could Help Education Monitor for and Detect Fraud, Waste, and Abuse

Many foreign schools have not submitted required annual audited financial statement and program compliance audit reports, which enable Education to monitor whether schools are using correct procedures to award, disburse, and account for the use of federal funds as well as help Education monitor for and detect significant fraud or other illegal acts. According to Education's OIG *Foreign School Audit Guide*, the annual audit reports are the primary tools used by Education program managers to meet their stewardship responsibilities in overseeing FFELP. For fiscal year 2001, about 57 percent of foreign schools failed to submit audited financial statements.[6] Collectively, these schools certified about $38 million in FFELP loans, about 17 percent of the total foreign school loan volume during the period. Further, Education regulations require foreign schools that certify $500,000 or more in FFELP loans during a fiscal year to have audited financial statements presented in U.S. Generally Accepted Accounting Principles (GAAP). For fiscal year 2001, nearly one-third of the foreign schools that certified $500,000 or more in FFELP loans failed to submit audited financial statements. Moreover, of those schools that certified $500,000 or more in FFELP loans and submitted audited financial statements for the period, over half did not submit statements presented into U.S. GAAP as required. (See table 2.)

[6]While we verified submission of audited financial statements for schools receiving over $500,000 in FFELP funds, we relied on spreadsheets summarizing data from PEPS regarding the submission of audited financial statements from schools receiving less than $500,000.

Table 2: Status of Foreign Schools' Submission of Audited Financial Statements for Fiscal Year 2001

FFELP loan volume	Number of schools	Number of schools that did not submit audited financial statements	Volume of FFELP loans certified by schools not submitting audited financial statements	Number of schools submitting audited financial statements in U.S. GAAP
$0-249,999	419	257	$11.9 million	Not applicable
$250,000-499,999	39	19	6.2 million	Not applicable
$500,000 +	52	16	20.1 million	16
Total	**510**	**292**	**$38.2 million**	

Source: GAO analysis of FSA data.

In addition to submitting audited financial statements, all foreign schools are required to submit program compliance audit reports on an annual basis. These reports address schools' compliance with the laws and regulations that are applicable to FFELP. In fiscal year 2001, however, only 7 percent of all foreign schools submitted such reports. Of schools that certified $500,000 or more in FFELP loans, over 40 percent failed to submit program compliance audit reports. The vast majority of those schools that certified less than $500,000 in FFELP loans also failed to submit such reports. While those schools that submitted program compliance audit reports collectively certified about 75 percent of the total FFELP loan volume for fiscal year 2001, the remaining schools certified about $59 million in FFELP loans. (See table 3.)

Table 3: Status of Foreign Schools' Submission of Program Compliance Audit Reports for Fiscal Year 2001

Dollars in millions

FFELP loan volume	Number of schools	Number of schools that did not submit program compliance audit reports	Volume of FFELP loans certified by schools not submitting program compliance audit reports
$0-249,999	419	419	$21.6
$250,000-499,999	39	34	11.8
$500,000 +	52	23	25.9
Total	**510**	**476**	**$59.3**

Source: GAO analysis of FSA data.

Some Foreign Schools Do Not Provide Loan Counseling for Student Borrowers

Interviews with foreign school officials and our review of school files revealed that some foreign schools do not provide loan counseling. Despite that default rates for foreign schools as a whole are relatively low, loan counseling is important because new students often have little or no experience with repaying and managing debt. Such counseling can help borrowers avoid defaulting on their loans, which can, in turn, help prevent waste from occurring in FFELP. Two of the schools we visited, which are also the schools with electronic access to Education's information systems, had staff available to provide loan counseling and school officials reported doing so both prior to students' arrival on campus and after students' registration on campus. Other school officials, who had certified loan volumes ranging from $100,000 to about $1 million, stated that loan counseling was not provided as required by regulations.

No On-Site Visits Conducted to Verify Existence of Foreign Schools

Education's current eligibility certification process does not include conducting on-site visits to verify the existence of foreign schools. As we reported in November 2002, due in part to this weakness, Education granted approval to a fictitious foreign school that our undercover investigators created and which enabled our investigators to obtain approval for FFELP loans for fictitious students. To obtain approval to participate in FFELP, our investigators created various false documents required to be submitted with its PPA, including a course catalog, audited financial statements, and a letter purporting to be from United Kingdom government authorities acknowledging the school as a nonprofit, degree-granting institution. Education did not verify the existence of the school with foreign government officials or other parties or sources before certifying the school as eligible to participate in FFELP. After receiving

approval of their fictitious school, our investigators also requested and obtained information necessary for the school to certify student eligibility for loans. Our investigators then sought FFELP loans by filing FAFSAs using three different fictitious student identities and applying for loans from three different lenders. Our investigators created false school certifications of these students' eligibility for loans and also created false student enrollment reports. Two of the three lenders to whom our investigators submitted applications approved loans totaling, in the aggregate, $55,000, at which point we completed the investigation. Based on the results of our investigation, we recommended that Education implement a process, including conducting on-site visits, to ensure that a foreign school applying to participate in FFELP actually exists.

Education Has Taken Limited Steps to Reduce the Vulnerability of FFELP to Fraud, Waste, and Abuse but FFELP Remains Vulnerable

Education has taken limited steps—since the beginning of 2002 and throughout the course of our audit work—to reduce the vulnerability of FFELP to fraud, waste, and abuse; however, its actions in some cases have been limited or have achieved limited results. In an effort to share more information with foreign school officials to help them comply with HEA and Education requirements, Education has increased the technical assistance it provides to foreign schools by publishing a reference guide and holding a series of training sessions. In addition, to assist foreign schools in complying with audit requirements, Education's OIG issued a Foreign School Audit Guide in September 2002. However, interviews with foreign school officials and review of school files revealed that these efforts may not be sufficient to ensure that FFELP is being properly administered by the schools. Our review also found that the on-line training tutorial made available to foreign school officials on Education's Web site does not contain information specific to foreign schools and even has information contrary to how foreign schools are to administer FFELP. Moreover, while Education requested that all foreign schools with overdue audited financial statements and certain schools with overdue program compliance audit reports submit them, it has not decided on the consequences for schools that do not comply with the request. Finally, in response to our fraud investigation, Education established new procedures for staff to use in certifying schools' eligibility to participate in FFELP and provided its staff training on the new procedures yet no new foreign schools have been approved for participation in FFELP since the summer of 2002.

Reference Handbook and Training Provided to Foreign School Officials, Yet Some Officials Remain Unaware of How to Properly Administer FFELP

Education has provided a reference handbook and training to foreign school officials; however, our interviews with several school officials and our review of schools' files revealed that they remain unaware of how to properly administer FFELP, which may increase the risk of fraud, waste, and abuse occurring. In January 2002, Education issued the *Student Financial Aid Handbook for Foreign Schools: 2001-2002*. The *Handbook* was designed to help participating foreign schools achieve manageable, student-friendly administration of FFELP and to ensure that schools are aware of the legal requirements of participating in FFELP. According to FSA, the Handbook was mailed to all foreign schools participating in FFELP and it is currently posted to Education's Web site. Education also held a series of training sessions for foreign school officials during 2002 in several locations, including Canada, Australia, England, Scotland, and Puerto Rico. Also, in September 2002, Education's OIG issued a *Foreign School Audit Guide*, which assists foreign school officials in complying with the audited financial statement and program compliance audit requirements. To supplement this information, Education offers an on-line training tutorial, *FSA COACH*,[7] for school officials' use, although it was not specifically designed for foreign school officials.

However, Education's efforts to improve FFELP administration through training may have fallen short because knowledge of the training materials available was not widespread among the school officials we spoke to during our review. For instance, two foreign school administrators indicated that they had not received the *Handbook* from Education. In addition, as previously discussed, some foreign school officials were unaware of how to properly document and determine student eligibility for FFELP loans. Furthermore, although HEA regulations require training for officials at schools newly certified to participate in FFELP, Education officials did not provide information about training requirements or opportunities to our undercover investigators when we created the fictitious foreign school. An FSA official said that Education does not require foreign school officials to travel to the United States to attend available training before certifying a schools' eligibility to participate in FFELP because of concerns about the financial burden on foreign schools. Instead, FSA provides training materials, along with information about how to use *FSA COACH*, to school officials. However, some administrators remain unaware of any on-line information, and when we interviewed foreign school officials at schools that have been participating

[7] *Computer*-Based *Orientation* to *Aid Concepts* and *How*-tos.

in FFELP for a number of years, several indicated that they had not received training prior to administering FFELP.

Even when training materials did reach FFELP administrators, these materials may have been insufficient to assist school officials. While some officials told us that they found the information and training useful, other officials told us that they did not. For example, several foreign school officials we spoke with indicated that the training sessions were very useful and indicated that holding such trainings more frequently would be valuable. One school official, however, commented that his peers found the regulatory and legislative information contained in the *Handbook* beyond their grasp, and that some of the information was confusing, especially for those school officials in countries where student financial aid is administered in an entirely different fashion than in the United States. Many other school officials commented on the need for better on-line information. Some found Education's Web page difficult to navigate and some reported being unable to find needed information. Finally, while reviewing *COACH*, we found that much of the information contained within it was not applicable to foreign schools and, in some instances, it presents information that is contrary to how foreign schools operate. (See table 4.)

Table 4: Information in COACH Not Applicable to Foreign Schools

Type of information	COACH statement	Reason not applicable to foreign schools
FAFSA verification process	A major financial aid office responsibility is the verification of application data for students whose applications have been selected by Education's Central Processing System (CPS).	Education regulations exempt foreign schools from verifying information that students report on the FAFSA.
Electronic systems	Schools must enroll in the Student Aid Internet Gateway (SAIG), which is Education's electronic vehicle for transmitting application data to and from schools. Schools must receive ISIRs through SAIG for every student to whom they award Title IV funds.	To enroll in SAIG the school must have at least one staff member with a U.S. social security number, which most foreign schools do not have. Therefore, most foreign schools are not enrolled in SAIG, and they do not receive the ISIRs.
	The CPS transmits ISIRs to schools electronically. ISIRs are designed to provide all the data that a school needs to determine a student's eligibility for federal student aid. Corrections to ISIR information can be made by schools electronically.	NSLDS is accessed through SAIG.
	All schools are required to have on-line access to the NSLDS Internet Web site for financial aid professionals.	
Loan disbursement procedures	The school is also responsible for receiving FFELP funds disbursed by the lender (or the guaranty agency on the lender's behalf) and delivering these funds to the student.	Students attending foreign schools may opt to receive loan disbursements directly from lenders. In addition, single rather than multiple disbursements are allowed for students attending foreign schools. These alternatives are not explained in Coach.
SSCR information received on-line	Schools must complete and return SSCRs to Education's NSLDS.	Most foreign schools do not have access to NSLDS (to obtain access they must be enrolled in SAIG). Guaranty agencies are responsible for sending such schools a paper copy of the SSCR. Schools indicate enrollment information on the SSCR and return it to the guaranty agency, which then uses the information to update NSLDS.

Source: FSA University Web site, COACH tutorial

While *COACH* was not designed specifically for foreign schools, Education directs foreign school officials to *COACH* for training materials upon certification, and the *COACH* tutorial states that it is a comprehensive introductory course on school requirements for administering FFELP and other student financial aid programs.

Education Has Requested Foreign Schools to Submit Overdue Audited Financial Statement and Program Compliance Audit Reports but Has Not Decided on Consequences for Schools That Fail to Do So

In December 2002, during the course of our review, Education sent letters to all foreign schools requesting that they submit overdue audited financial statement reports. They also requested schools that certify $500,000 or more in FFELP loans to submit program compliance audit reports for the 4 most recent fiscal years. Education told the schools that failure to submit the requested documents within 45 days would result in consequences. Education is now considering revoking or denying schools' certification to participate in FFELP if it did not receive overdue audited financial statement and program compliance audit reports.

In Response to Our Investigation, Education Has Taken Steps to Address Deficiencies Identified in Creating a Fictitious Foreign School, but Some Changes Have Not Yet Been Implemented

According to Education officials, FSA revised internal procedures for verifying schools' legitimacy, and its foreign schools' team was retrained. The retraining covered school eligibility requirements with an emphasis on the importance of validating with the appropriate foreign education office that a school is legitimate. To help staff verify that a school is legitimate, Education modified an internal checklist to include space for documenting the source and date of validation in the school's file. Since learning of our investigation, Education verified the existence of all schools that are participating in FFELP, by either checking that the school is approved on an official Web site, or by corresponding or speaking with country education offices and ministries. Additionally, with respect to new applications from schools that have not previously participated in FFELP, Education no longer accepts a post office box address as the official location of a school or a third party servicer that administers FFELP for the school.

Education has not yet implemented some planned changes in its procedures for determining FFELP eligibility of new foreign school applicants. Consequently, no new foreign schools have been certified to participate in FFELP since Education became aware of the school we created in May 2002, even though applications have been received from 19 schools. Education is currently considering implementing a process similar to that used when a domestic school applies for participation. This process would entail circulating the name of the school and its owners among a number of officials in FSA and other Education offices to determine whether staff have any information or knowledge that would affect a decision to certify the school's eligibility to participate in FFELP. Education's International Affairs staff, who coordinate the agency's various international programs, would be among those to whom such information would circulate. If any staff were to raise concerns about the

school or its owners, Education would consider conducting an on-site program review.

Additional Actions to Reduce Program Vulnerability Will Require Balancing Competing Goals

Education could take additional action to address the goal of reducing the vulnerability of FFELP to fraud, waste, and abuse, such as more strictly enforcing school audit requirements or providing electronic access to information systems to help school officials more easily determine students' eligibility for FFELP loans. However, any steps that Education takes will likely involve trade-offs that may affect access, accountability, and burden for various participants in FFELP. For example, Education could aggressively enforce foreign schools' audit reporting requirements, but this may lead to unintended consequences, including limiting students' access to such institutions if foreign schools withdraw from FFELP as a result. Other potential steps include changing disbursement procedures to help limit the federal government's exposure to loss, but doing so may increase burdens for schools and students. In addition, providing foreign school officials with electronic access to information may help them properly determine student eligibility for FFELP loans, but may increase security risks. Additionally, we have developed tools that could help Education determine how to balance the objectives of providing U.S. residents with access to foreign schools while protecting the taxpayers' investment that is intended to help provide that access.

Stricter Enforcement of School Audit Requirements Would Provide Education More Data to Assess Vulnerability, but May Reduce Student Access

Education could more strictly enforce school audit report requirements, but doing so may limit U.S. residents' access to foreign schools. FSA officials have stated that while Education is committed to maintaining the integrity of the FFELP program, it is also committed to providing access to international education opportunities for U.S. resident students and does not want to create barriers to those opportunities. As previously discussed, a large number of foreign schools have failed to submit required audited financial statement and compliance audit reports to Education in a timely manner. FSA officials told us that balancing enforcement of these statutory and regulatory provisions with providing students access to foreign schools is challenging. In their opinion, the current compliance audit requirements may place an undue burden and result in excessive costs for foreign schools that enroll few U.S. residents. Several foreign school officials we spoke to also told us that they found such audits to be costly, considering that students receiving FFELP loans constituted very small proportions of their student bodies. According to these officials, these audit requirements provide a disincentive to participate in FFELP in order to avoid what they perceive as an administrative and financial burden. Education officials are now

considering whether to issue letters to foreign schools that certify less than $500,000 annually in FFELP loans requesting program compliance audit reports and whether an alternative approach to overseeing these schools should be taken.

In addition to requiring foreign schools to submit audited financial statements and compliance reports, another potential step Education is considering relates to the requirement that certain schools submit audited financial statements under U.S. GAAP. Several school administrators and government officials in the United Kingdom told us that they found the requirement for schools to submit audited financial statements presented in U.S. GAAP to be burdensome, in light of the audit requirements of their home country. They stated that they believed that the United Kingdom's accounting standards are sufficiently comparable to U.S. GAAP that Education should accept their statements for purposes of meeting FFELP statutory and regulatory requirements. Doing so, according to these officials, would reduce the administrative and financial burden associated with the requirement. Further, because Education's regulation requiring that audited financial statements be presented under U.S. GAAP applies only to foreign schools that certify $500,000 or more in FFELP loans, these officials told us that foreign schools have an incentive to limit enrollment of students receiving FFELP loans so that they do not exceed this threshold.

Education is currently considering whether to allow exemptions for foreign schools located in Canada and the United Kingdom—which collectively accounted for 314, or about 62 percent of the total foreign schools participating in the FFELP during academic year 2000-01—to its regulations requiring audited financial statements be presented into U.S. GAAP. According to an FSA official, the justification for such an exemption is based on the results of a comparison of several foreign countries' auditing standards contained in Education's policies and procedures manual, developed in consultation with a private accounting firm. While the purpose of the manual is to provide a methodology for FSA staff to use in assessing the financial health of foreign schools certifying less than $500,000 in FFELP loans, the manual does contain a limited analysis comparing the selected foreign countries' accounting standards with U.S. GAAP and the potential effects of Education relying on foreign standards on the results of its analyses.

Changing Loan Disbursement Procedures Would Reduce Exposure to Fraud, Waste, and Abuse, but Decrease Lender, School, and Student Flexibility

Education could seek statutory, and consider regulatory, changes to loan disbursement procedures to address the potential for fraud, waste, and abuse; however, such changes could have a significant impact on schools and students. In our discussions with FFELP lenders and school officials, we found that disbursement methods and preferences vary among both lenders and schools. For example, representatives of one large FFELP lender told us that it is their standard operating procedure to disburse student loan proceeds directly to student borrowers by sending them checks. In contrast, a representative of another large FFELP lender, which specializes in making FFELP loans to students attending foreign medical schools, told us that it only (1) issues checks that are payable to both the student borrower and the foreign school and (2) sends these checks, or electronically transfers loan proceeds, to foreign schools, requiring student borrowers to obtain their funds through the schools. Some foreign school officials encourage students to receive their loan proceeds in this manner, as it helps the school maintain control of the funds. According to a guaranty agency official, a school official, and an FSA official some schools do not have financial aid offices or routinely carry out such functions at their institutions and therefore do not have the resources to be an intermediary between lenders and students. Other school officials told us that they are prohibited by local regulations from taking out student fees from loan checks and remitting the difference to students.

In addition to receiving loan proceeds directly from lenders, students attending foreign schools may also receive loan proceeds in one lump sum rather than in multiple disbursements. According to many of the lenders and foreign school officials we spoke to, students frequently elect to receive their loan proceeds in this way, particularly students who are enrolled in 1-year graduate programs. Yet, several school officials told us that they prefer multiple disbursements for their students as the school is on a semester or trimester calendar and multiple disbursements provide them more assurance that expenses will be paid. One lending official, however, told us of an instance in which a student had trouble entering a country because she did not have sufficient proof that she had enough funds for the academic year. Thus, allowing students to receive loan proceeds in one lump sum might help students in such situations.

Education is considering taking additional steps with respect to current disbursement procedures. As previously discussed and as documented by prior OIG investigations, the disbursement procedures used to provide loan proceeds to U.S. residents attending foreign schools exposes the federal government to increased risk for potential losses. Education is considering encouraging or requiring lenders to take steps prior to

disbursing loan funds to students attending foreign schools. These steps could include (1) confirming that schools are eligible to participate in FFELP, (2) verifying that students are accepted for enrollment at foreign schools prior to disbursing funds, and (3) continuing to notify foreign schools when loan disbursements are made to student borrowers.

Providing Schools Electronic Access to Education Data Could Improve Eligibility Determinations but Increases Information Security Risks

Providing electronic access to Education's information systems needed to determine student eligibility may help improve schools' administrative capacity but may also increase information security risk. The lack of electronic access decreases schools' administrative capacity, as foreign school officials have difficulty obtaining the documentation necessary to determine student eligibility and impedes the exchange of SSCRs with guaranty agencies. Education is currently working to address these issues and is considering providing foreign school officials with an alternative to requiring that someone on their staff possess a U.S. social security number to access its information systems. However, poor information security is a high-risk area across the federal government with potentially devastating consequences.[8] Threats to the security of any data system may include attempts to access private information by unauthorized users, user error, as well as pranks and malicious acts. Potential damage arising from such threats could include, among other things, the disclosure of sensitive information, disruption of critical services, the interruption of services and benefits, and the corruption of federal data and reports. Therefore, Education needs to carefully weigh the benefits and risks of providing such access to foreign school administrators.

Risk Assessments Can Help Agencies Balance Competing Goals Inherent in Addressing Program Vulnerability

We have found that conducting a risk assessment is one of several critical steps that agencies need to undertake to identify and address major performance challenges and areas that are at risk for fraud, waste, and abuse. We have also developed tools to assist agencies in undertaking such assessments. These tools provide a framework for identifying areas at greatest risk as well as various reports which can assist agencies in evaluating internal controls and addressing improper payments resulting

[8]U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: Jan. 2003).

from fraud, waste, and abuse.[9] These tools could be useful to Education in weighing the advantages and disadvantages of various ways of overseeing and assisting foreign schools. Among other things, these tools highlight the importance of conducting risk assessments—comprehensive reviews and analyses of program operations to determine the nature and extent of program risks—and identifying cost-effective control activities to address identified risks.

Conclusions

Foreign schools' ability to participate in FFELP supports wide-ranging educational opportunities for U.S. residents and ensures that these students have a variety of options in pursuing postsecondary education. In light of recent events highlighting the vulnerability of FFELP with respect to U.S. residents attending foreign schools, Education has taken some important steps, and could take additional steps, both immediate and longer term, to decrease the vulnerability of the program. Ensuring that foreign school officials know how to properly administer the program, especially what steps they need to take to ensure that students are eligible to receive federal funds, is critical to reducing the program's vulnerability to fraud, waste, and abuse. Education has taken steps to provide school officials with additional information concerning their responsibilities yet as we have shown, foreign school officials may need more information. Training that is convenient and specifically designed for foreign school officials could help bridge this information gap. Education is also considering what regulatory flexibilities it might extend to some foreign schools while also considering stricter enforcement of current statutory and regulatory provisions. The use of a risk assessment could help ensure that Education appropriately identifies the risks involved in the program and how best to balance the objectives of providing U.S. residents with access to foreign schools while protecting the taxpayers' investment intended to help provide that access. In taking such actions, Education might identify alternative regulatory and oversight methods that would strike such a balance.

[9]U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov.1999), *Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: Oct. 2001); and *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug. 2001).

Recommendations for Executive Action

To help ensure that foreign school officials have the knowledge necessary to properly administer FFELP, we recommend that the Secretary of Education develop on-line training resources specifically designed for foreign school officials.

To better ensure that Education is adequately overseeing foreign schools participating in FFELP, we recommend that the Secretary of Education undertake a risk assessment to determine how best to ensure accountability while considering costs, burden to schools and students, and the desire to maintain student access to a variety of postsecondary educational opportunities. Further, after completing the risk assessment, if Education determines that legislative and/or regulatory changes are justified, we recommend that the Secretary seek any necessary legislative authority and/or implement any necessary regulatory changes.

Agency Comments

In written comments on our draft report, Education agreed with our reported findings and recommendations and, among other things, said that it has begun to reengineer its process for determining the eligibility of foreign schools to participate in FFELP. Education also provided technical clarification, which we incorporated where appropriate. Education's written comments appear in appendix II.

We are sending copies of this report to the Secretary of Education, appropriate congressional committees, and other interested parties. In addition, the report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staffs have any questions about his report, please contact me on (202) 512-8403 or Jeff Appel on (202) 512-9915. Gillian Martin and Cara Jackson made significant contributions to this report.

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce
and Income Security Issues

List of Congressional Addressees

The Honorable Judd Gregg, Chairman
The Honorable Edward M. Kennedy, Ranking Minority Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable Arlen Specter, Chairman
The Honorable Tom Harkin, Ranking Minority Member
Subcommittee on Labor, Health and Human Services,
and Education
Committee on Appropriations
United States Senate

The Honorable Ralph Regula, Chairman
The Honorable David Obey, Ranking Minority Member
Subcommittee on Labor, Health and Human Services,
and Education, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable John Boehner, Chairman
The Honorable George Miller, Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

The Honorable Jeff Sessions
United States Senate

Appendix I: Characteristics of Foreign Schools Participating in FFELP, by Country

Country	Number of schools	FFELP loan volume academic year 2000-01	Number of students participating in FFELP across schools[a]
Australia	35	$5,021,718	0 to 49
Austria	2	$122,872	0 to 12
Belgium	3	$243,650	0 to 18
Bulgaria	1	$0	0
Canada	108	$15,825,894	0 to 356
Chile	1	$0	0
China	1	$0	0
Colombia	1	$0	0
Costa Rica	3	$541,437	0 to 34
Czech Republic	6	$424,969	0 to 12
Denmark	4	$65,000	0 to 6
Dom. Republic	6	$20,653,159	1 to 469
Dominica	1	$35,235,509	1776
Egypt	1	$450,133	33
England	182	$25,405,722	0 to 191
Finland	3	$110,000	0 to 5
France	13	$1,234,416	0 to 82
Grenada	1	$30,666,842	1528
Hungary	5	$3,035,655	3 to 92
India	2	$354,125	1 to 21
Ireland	9	$5,868,032	0 to 105
Israel	12	$7,176,498	0 to 214
Italy	5	$820,092	1 to 23
Japan	3	$67,598	0 to 3
Korea	1	$29,000	1
Lebanon	1	$37,000	2
Liechtenstein	1	$16,500	2
Mexico	11	$27,003,357	0 to 1214
Netherlands	12	$1,249,679	0 to 46
N. Zealand	6	$279,130	0 to 8
Nicaragua	1	$0	0
N. Ireland	2	$222,165	7 to 10
Norway	5	$56,125	0 to 2
Philippines	4	$311,666	0 to 13
Poland	8	$5,429,140	0 to 106
Scotland	14	$4,183,953	0 to 90

Country	Number of schools	FFELP loan volume academic year 2000-01	Number of students participating in FFELP across schools*
S. Africa	2	$76,000	0 to 5
Spain	6	$483,308	0 to 17
St. Kitts	2	$14,086,736	91 to 609
St. Maarten	1	$16,500,071	774
Sweden	5	$152,800	0 to 7
Switzerland	6	$701,103	1 to 39
Vatican	3	$202,646	3 to 10
Wales	8	$654,187	0 to 18

Source: GAO analysis of FSA data.

*Foreign schools may be eligible to participate in FFELP but not enroll U.S. residents in a given year and thus report zero enrollments.

Appendix II: Comments from the Department of Education

CHIEF OPERATING OFFICER

July 22, 2003

Ms. Cornelia M. Ashby
Director, Education, Workforce, and Income Security Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Ashby:

Thank you for the opportunity to respond to your draft audit report entitled, *"Student Loans and Foreign Schools - Assessing Risks Could Help Education Reduce Program Vulnerability" (GAO-03-647)*. I am responding on behalf of the Department of Education.

The Federal Student Aid programs (authorized by Title IV of the Higher Education Act of 1965) play an important part in assisting millions of Americans each year in attaining their higher education goals. The integrity of these programs is a critical goal of the Department. To do this, we must ensure that only eligible students attending eligible schools with eligible programs receive federal student aid funds.

As stated in your draft report, foreign schools offer unique educational opportunities for Americans and help ensure that our students have a wide range of options in pursuing postsecondary education. It is noteworthy that only 26,591 U.S. students received $255,940,029 in FFELP loans in fiscal year 2002 to attend postsecondary education institutions located outside the U.S. It is also important to note that the average cohort default rate for students that attended these institutions was only 2.6 percent in FY 2000 -- nearly half the rate for students that attend institutions in the U.S.

The Department takes its oversight role extremely seriously and has begun to reengineer its process for determining the eligibility of foreign schools. The reengineered process will rely on a more rigorous analysis of relevant student data pertinent to institutional eligibility. Data on foreign schools will be a part of a new risk analysis system currently under development. Until this system is available, we will continue to perform ad hoc analyses of the data. We agree with your recommendations that we should enhance training for our foreign school partners and undertake a risk assessment to measure costs, burden, and access issues.

830 First Street, NE, Washington, D.C. 20202
1-800-4-FED-AID
www.studentaid.ed.gov

Page 2 – Ms. Cornelia M. Ashby

Again, thank you for the opportunity to comment on the draft report. If you have any questions, please contact Ms. Kay Jacks at (202) 377-4288.

Sincerely,

Theresa S. Shaw

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